

August 28, 2012

Commodities Research

Silver Report

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COMMODITY RESEARCH

MARKET OUTLOOK

US silver futures price fell 0.57% to US dollars 30.70 per troy ounce from US dollars 30.875 per troy ounce the day earlier. In line with the price trend, the RSI dropped to 72.36 and the recommendation is to sell on strength as the price further trends upwards. The price at US dollars 30.70 breached past all the 4-, 9- and 18- day moving averages of 30.71, 29.63 and 28.78 respectively. The price at US dollars 30.70 has closely approached and has once breached the upper Bollinger band of 30.999.

SILVER HOARD NEAR RECORD AS HEDGE-FUND BULLS RECOIL: COMMODITIES

At a time when hedge funds are the least bullish on silver in almost four years, investors' holdings are near a record, siding with the analysts predicting a rally as central banks move to bolster growth.

Speculators cut bets on higher prices by 72 percent since the end of February, mirroring changes in their copper wagers, which turned bearish in May, U.S. Commodity Futures Trading

Market Watch

(Prices in US dollars per troy ounce)

Close 30.70

(US Comex silver futures price as of August 28, 2012)

Time	Forecast Price (US\$)	Return (%)	Annualized Return
1 year	32.17	4.80%	4.80%
5 years	39.93	30.08%	5.40%
10 years	49.06	59.81%	4.80%
15 years	64.74	110.88%	5.10%
20 years	87.89	186.29%	5.40%
30 years	136.53	344.71%	5.10%

12 Months Price Projection			
	High	Average	Low
Jul-12	38.53	30.82	23.12
Aug-12	38.68	30.94	23.21
Sep-12	38.83	31.06	23.30
Oct-12	38.98	31.18	23.39
Nov-12	39.13	31.31	23.48
Dec-12	39.29	31.43	23.57
Jan-13	39.44	31.55	23.66
Feb-13	39.59	31.67	23.76
Mar-13	39.75	31.80	23.85
Apr-13	39.90	31.92	23.94
May-13	40.06	32.05	24.04
Jun-13	40.22	32.17	24.13

Conclusion:

- **Based on fundamental analysis, we recommend buy on weakness**
- **Based on technical indicators, we recommend sell on strength**

Assumptions:

- On average the market price grew 13.63% per year over the last 15 years
- Silver production and prices typically exhibit negative correlation to US and other developed markets' economic performance
- Silver price performance serves as an inflation hedge and is one of the precious metals besides gold serving as safe haven investment and assisting investors during financial upheavals / crises in the flight to quality

References:

- Statistics Bureau, Bloomberg, Barclays, , Reuters, Index Mundi

“Since the beginning of the year it has reacted more like a base metal than a precious one,” said Frederique Dubrion, the Geneva-based president and chief investment officer of Blue Star Advisors SA, which manages metals and energy assets. “The main negatives are still in industry. We’re waiting for more quantitative easing, and that would be really positive.”

Comex Bourse

After tumbling 29 percent in the four months to the end of June, silver is now little changed for the year at \$27.76 on the Comex bourse in New York. The LME index of six industrial metals from aluminum to zinc fell 5.2 percent as gold advanced 2.5 percent. The Standard & Poor’s GSCI gauge of 24 commodities rose 1.6 percent since the start of January and the MSCI (MXWD) All-Country World Index of equities gained 8 percent. Treasuries returned 2.1 percent, a Bank of America Corp. index shows.

Silver is the most volatile metal tracked by Bloomberg and the price swings are masking what are already historically high prices. While the metal is trading 44 percent below the 31-year high of \$49.845 set in April 2011, it averaged \$30.37 since the start of January, on track for the second-highest annual level after last year’s \$35.27. The two-decade average is \$9.97.

For Coeur d’Alene Mines Corp., which gets about 65 percent of its revenue from extracting the metal, that will mean a 35 percent jump in profit to a record in 2012, according to the mean of six analyst estimates compiled by Bloomberg.

Interest Rates

Industrial demand for silver may strengthen as economic growth accelerates. The International Monetary Fund said July 16 it expects the global economy to expand 3.9 percent next year, from 3.5 percent in 2012. The European Central Bank and the Federal Reserve are already holding interest rates at record lows and the People’s Bank of China cut rates in June and July, the first reductions since 2008.

They may need to do more to bolster growth because U.S. factory output contracted in July for a second month, the Institute for Supply Management said Aug. 1. Manufacturing in the euro area shrank for a 12th consecutive month, a Markit Economics report showed the same day. China’s industrial-output growth was the slowest in three years in July, according to government data released Aug. 9.

Silver imports by China, the second-biggest user after the U.S., declined for three consecutive months through June, customs data show. Global fabrication demand, a measure that includes coins, jewelry and photographic film, will be little changed in 2013, Barclays Plc estimates. The bank expects supply to beat consumption for a fifth year, leaving a glut of 4,148 tons as mine production expands to a record 25,835 tons.

‘The Gap’

“Industrial demand may remain weak at least for another six months,” said Jochen Hitzfeld from UniCredit SpA in Munich, the fourth most-accurate precious metals forecaster tracked by Bloomberg in

the past two years. "This makes the gap that investors have to absorb even higher," said the analyst, who anticipates a fourth-quarter average of \$28. Investors bought 797 tons through silver-backed ETPs this year and now hold 18,093 tons, equal to more than eight months of global mine output, data compiled by Bloomberg show. They sold a net 812 tons from ETPs last year. Total assets are now 2.9 percent below the record 18,639 tons reached in April 2011. Investors probably will buy another 500 tons in 2013, Barclays and Morgan Stanley predict.

There are also signs that industrial demand is improving. Stockpiles in warehouses monitored by Comex fell 6.5 percent since July 3, reaching a four-month low on Aug. 8, bourse data show. Inventories had expanded every month since November to 147.1 million ounces (4,575 tons), the most since 1997.

More Bullish

Hedge funds may be getting more bullish, more than doubling their net-long position, or bet on higher prices, to 9,323 futures and options in the two weeks to Aug. 7, CFTC data show. That's still 58 percent below the five-year average. Wagers fell to 2,888 contracts on June 26, the lowest since October 2008.

Options traders are divided. The most widely held contract confers the right to buy silver at \$50 by November 2013 and the next two biggest allow holders to sell metal at \$20 by the same time and November 2012, Comex data show. The five biggest gold options are all for purchases at prices higher than today.

Some investors may be deterred by silver's price swings. The 100-day historical volatility for futures is at 30.8 percent, more than in gold, platinum, palladium and the main industrial metals traded on the London Metal Exchange, data compiled by Bloomberg show.

Analyst Forecasts

Coeur d'Alene will report net income of \$126.6 million this year, from \$93.5 million in 2011, the analyst estimates show. Shares of the Coeur d'Alene, Idaho-based company slid 18 percent to \$19.80 this year. They will rally 35 percent to \$26.74 in 12 months, according to the average of seven analyst forecasts.

Pan American Silver Corp. (PAAS), based in Vancouver, will make \$302.5 million next year, from \$234.8 million in 2012, the mean of six analyst estimates shows. Shares of the company, which got 51 percent of its revenue from silver in 2011, fell 28 percent to \$15.64 in New York trading since the start of January. They will rise 45 percent to \$22.63 in the next 12 months, the average of 14 forecasts compiled by Bloomberg shows.

Fed policy makers pledged to do more if needed on Aug. 1 and ECB President Mario Draghi said July 26 he would do whatever it takes to preserve the 17-nation euro. Lower interest rates increase the allure of precious metals because they generally earn investors returns only through price gains. "People like me who have tremendous confidence in silver and are invested in the market see it rising once the easing begins," said Jeffrey Sica, the Morristown, New Jersey-based president of SICA Wealth Management, who helps oversee about \$1 billion of assets. "I expect an acceleration in the fear trade. Most of the hedge funds who sold will be back once the market gathers momentum."

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